



**BANK OF MONTREAL**

**AUDIT AND CONDUCT REVIEW COMMITTEE CHARTER**

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The Committee is responsible for assisting the Board in fulfilling its oversight responsibilities for the integrity of the Bank's financial and sustainability reporting, including climate disclosures; the effectiveness of the Bank's internal controls; the independent auditor's qualifications, independence and performance; the Bank's compliance with legal and regulatory requirements; transactions involving related parties; conflicts of interest and confidential information; standards of business conduct and ethics; and consumer protection measures and complaints.

In addition, the Committee will also act as the audit and conduct review committee of Designated Subsidiaries.

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**PART I  
MANDATE**

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The Committee will, either directly or through one or more sub-committees, perform the duties set out in this Charter and such other duties as may be necessary or appropriate including:

**1.1 Financial Reporting**

1.1.1 reviewing, together with management and the Shareholders' Auditors:

- (i) the appropriateness of, and any changes to, the Bank's accounting and financial reporting;
- (ii) the accounting treatment, presentation and impact of significant risks and uncertainties;
- (iii) any material relevant proposed changes in accounting standards and securities policies or regulations;
- (iv) key estimates and judgments of management;
- (v) significant auditing and financial reporting issues and the method of resolution;
- (vi) tax matters that are material to the financial statements; and
- (vii) enterprise sustainability disclosures required to be included in financial reporting.

1.1.2 reviewing, together with management and the Shareholders' Auditors, and approving or, if appropriate, recommending to the Board:

- (i) prior to Board review or public disclosure, the audited annual and unaudited interim financial statements and related management's discussion and analysis, the annual information form, and any other financial or non-financial (as considered appropriate) information in material public disclosure documents (other than earnings coverage ratios, capitalization tables and summary financial information derived from any of the foregoing); and

(ii) such returns to OSFI requiring review under the *Bank Act* (Canada);

- 1.1.3 seeking confirmation from management that the Bank's annual and interim financial filings, fairly present in all material respects the financial condition, results of operations and cash flows of the Bank as of the relevant date and for the relevant periods, prior to recommending to the Board for approval;
- 1.1.4 reviewing the types of information to be provided and types of presentations to be made to rating agencies and analysts (if any) relating to earnings guidance; and
- 1.1.5 satisfying itself that adequate procedures are in place for the review of financial information extracted or derived from the Bank's financial statements that is to be publicly disclosed and has not otherwise been reviewed by the Committee.

## **1.2 Internal Controls**

- 1.2.1 overseeing the design, implementation, maintenance and effectiveness of the Bank's internal controls, including those related to the prevention, identification and detection of fraud; and reviewing and monitoring other Bank Corporate Policies as the Committee considers appropriate;
- 1.2.2 requiring management to design, implement, and maintain appropriate internal control procedures;
- 1.2.3 reviewing management's certifications and assessment of the Bank's internal control over financial reporting and the associated Shareholders' Auditors' report;
- 1.2.4 reviewing reports on the effectiveness of disclosure controls and procedures;
- 1.2.5 reviewing and discussing reports from management and the Chief Auditor as to the identification of any significant deficiencies or material weaknesses in the design or operation of the Bank's internal control, risk management, and governance systems and processes, including controls over financial reporting; reviewing any recommendations, as well as remediation plans, including the status of remediation plans implemented by management to rectify any such deficiencies identified; and discussing whether similar or related deficiencies may exist elsewhere in the Bank; and
- 1.2.6 reviewing as required, correspondence relating to inquiries or investigations by regulators concerning internal controls.

## **1.3 Internal Audit Function**

- 1.3.1 overseeing and reviewing at least annually the overall internal audit function, its resources and independence, and reviewing and approving the annual audit plan, including assurance that the audit plan is risk-based and encompasses appropriate audit coverage, audit cycle requirements, and provides a basis for reliance by the Committee;
- 1.3.2 reviewing and approving the Bank's Corporate Audit Mandate setting out the terms of reference of the internal audit function and the Chief Auditor;
- 1.3.3 reviewing, and jointly with the Human Resources Committee, recommending to the Board, the appointment, re-assignment or dismissal of the Chief Auditor, as required; and annually assessing the effectiveness of the Chief Auditor, in conjunction with the Human Resources Committee, and reviewing and approving his or her mandate;
- 1.3.4 annually reviewing and approving the organizational structure, budget, resource plan and strategic priorities of the Corporate Audit function and assessing its effectiveness having regard to its role as an

- independent control function;
- 1.3.5 reviewing the results of periodic independent reviews of the Corporate Audit function;
- 1.3.6 reviewing the quarterly report of the Chief Auditor, together with management's response;
- 1.3.7 reviewing any other reports submitted to the Committee by the Chief Auditor;
- 1.3.8 communicating directly with the Chief Auditor and participating in his or her initial and ongoing engagement and evaluation; and
- 1.3.9 overseeing the resolution of any disagreements between the Chief Auditor and management.

#### **1.4 Shareholders' Auditors**

- 1.4.1 reviewing and evaluating the quality, independence, objectivity and professional skepticism of the Shareholders' Auditors and the lead audit partner;
- 1.4.2 annually reviewing the performance of the Shareholders' Auditors including assessing their effectiveness and quality of service to facilitate an informed recommendation on re-appointment of the Shareholders' Auditors and, on a periodic basis, performing a comprehensive review of the performance of the Shareholders' Auditors over multiple years to assess the audit firm, its independence and application of professional skepticism;
- 1.4.3 reviewing Shareholders' Auditors' audit findings reports with the Shareholders' Auditors, the Chief Auditor, and management including:
  - (i) the quality of the financial statements;
  - (ii) the Shareholders' Auditors' evaluation of the Bank's internal control over financial reporting;
  - (iii) the degree of cooperation the Shareholders' Auditors received from management; any problems or difficulties experienced by the Shareholders' Auditors in conducting the audit, including management's responses in respect thereof, any restrictions imposed by management or significant accounting issues on which there was a disagreement with management;
  - (iv) any concerns expressed by the Shareholders' Auditors related to accounting and auditing matters, including the risk of material misstatements;
  - (v) the appropriateness and quality of all critical accounting policies and practices used by the Bank and of the selection of new policies and practices; and
  - (vi) any material judgments that have been discussed with management, the ramifications of their use and the Shareholders' Auditors' preferred treatment, as well as any other material communications with management, and advising the Board of these matters as considered appropriate;
- 1.4.4 overseeing the resolution of any disagreements between the Shareholders' Auditors and management;
- 1.4.5 reviewing all material correspondence between the Shareholders' Auditors and management related to audit findings;
- 1.4.6 reviewing the Shareholders' Auditors' report under Section 328 of the *Bank Act* (Canada);
- 1.4.7 obtaining and reviewing a report from the Shareholders' Auditors at least annually addressing: (i) the Shareholders' Auditors' internal quality control procedures; (ii) any material issues raised by the most

recent internal quality-control review or peer review of the Shareholders' Auditors, or by any inquiry or investigation by governmental or professional authorities including the Canadian Public Accountability Board and the Public Company Accounting Oversight Board, within the preceding five years, respecting one or more audits carried out by the Shareholders' Auditors; (iii) any steps taken to deal with any such issues; (iv) the Shareholders' Auditors' internal procedures to ensure independence; and (v) the delineation of all relationships between the Shareholders' Auditors and the Bank;

- 1.4.8 reviewing any notices required to be communicated/delivered by the Shareholders' Auditors to the Committee, including those required by the Canadian Public Accountability Board, OSFI, and the Public Company Accounting Oversight Board (United States), and taking such action and making recommendations to the Board as appropriate in connection therewith;
- 1.4.9 reviewing and approving the terms of the Shareholders' Auditors' engagement, the annual audit plan, including assurance that the audit plan is risk-based and appropriately addresses the risks of material misstatement, as well as any change in the materiality level used by the Shareholders' Auditors, and audit partner rotation and reviewing and recommending to the Board for approval the fees payable to the Shareholders' Auditors;
- 1.4.10 reviewing an annual written confirmation of the Shareholders' Auditors that they are independent in accordance with applicable independence rules and report directly to the Committee, as representatives of the Bank's shareholders;
- 1.4.11 reviewing and approving the Bank's Auditor Independence Standard;
- 1.4.12 pre-approving audit services and permitted non-audit services by the Shareholders' Auditors in accordance with the Bank's Auditor Independence Standard; and
- 1.4.13 reviewing and approving the Bank's policies for hiring current or former partners or employees of the current or former Shareholders' Auditors.

## **1.5 Finance, Legal & Regulatory Compliance Functions**

- 1.5.1 reviewing and, jointly with the Human Resources Committee, recommending to the Board the respective appointment, re-assignment or dismissal of the Chief Financial Officer, the General Counsel and the Chief Compliance Officer, as required; and annually assessing, in conjunction with the Human Resources Committee, the effectiveness of the Chief Financial Officer, the General Counsel and the Chief Compliance Officer, and reviewing and approving their respective mandates;
- 1.5.2 annually reviewing and approving the organizational structure, budget, resource plan and strategic priorities of the finance and legal & compliance functions and assessing their effectiveness having regard to their respective roles as independent control functions;
- 1.5.3 reviewing the results of periodic independent reviews of the finance and compliance functions; and
- 1.5.4 reviewing and overseeing the status of remediation plans implemented by management to rectify any deficiencies identified.

## **1.6 Financial Risk Management**

- 1.6.1 monitoring the Bank's major financial risk exposures and the steps management has taken to monitor and control such exposures; and
- 1.6.2 reviewing investments or transactions that could adversely affect the wellbeing of the Bank which the

Shareholders' Auditors or any officer of the Bank may bring to the Committee's attention.

## **1.7 Legal & Regulatory Compliance**

- 1.7.1 reviewing and approving the Legal, Regulatory and Reputation Risk Corporate Policy;
- 1.7.2 reviewing, with the Bank's General Counsel and the Chief Compliance Officer, the adequacy and effectiveness of the Bank's enterprise compliance program and the results of related monitoring and oversight activities;
- 1.7.3 reviewing with the Bank's General Counsel an annual report on significant matters arising from litigation, asserted claims or regulatory non-compliance and reviewing quarterly any material developments;
- 1.7.4 reviewing and approving the appointment, re-assignment or dismissal of the Chief Anti-Money Laundering Officer, as required;
- 1.7.5 reviewing and approving the Bank's Anti-Money Laundering, Anti-Terrorist Financing and Sanctions Measures Program framework, including key policies and any significant amendments and the budget, resources and strategic priorities for the Anti-Money Laundering, Anti-Terrorist Financing and Sanctions Measures Program function;
- 1.7.6 meeting, at least quarterly, with the Chief Anti-Money Laundering Officer and the Chief Auditor to review their respective reports on the Anti-Money Laundering, Anti-Terrorist Financing and Sanctions Measures Program;
- 1.7.7 meeting annually with representatives of OSFI as a Committee or as part of the Board, to receive OSFI's report on the results of its annual examination of the Bank; and
- 1.7.8 reviewing any other relevant reports of regulators to the Bank and any required action by management.

## **1.8 Business Conduct and Sustainability**

- 1.8.1 reviewing and recommending for Board approval BMO's Code of Conduct;
- 1.8.2 approving any exceptions from BMO's Code of Conduct, as appropriate;
- 1.8.3 assessing the effectiveness of the Bank's governance frameworks aimed at (i) fostering an ethical culture, (ii) encouraging compliance with both the letter and spirit of applicable laws, regulations and consumer protections, and (iii) reducing misconduct;
- 1.8.4 reviewing BMO's Whistleblower Process for the confidential anonymous submission and handling of misconduct concerns, including concerns about financial fraud, accounting irregularities, internal controls over financial reporting or auditing matters, by anyone inside or outside of the Bank;
- 1.8.5 reviewing reports from the Chief Ethics Officer and Head, Customer Complaint Appeals relating to whistleblower and/or customer concerns;
- 1.8.6 approving prior to disclosure BMO's annual Sustainability and Climate reporting, and related disclosures, overseeing internal controls on sustainability reporting, and overseeing any external assurances or attestations regarding reported sustainability metrics
- 1.8.7 assessing the effectiveness of the Bank's governance of sustainability issues; and
- 1.8.8 reviewing and approving the Bank's Statement Against Modern Slavery and Human Trafficking.

## **1.9 Self Dealing**

- 1.9.1 overseeing the effectiveness of self-dealing identification and procedures established by management for related and affected parties and monitoring compliance with applicable laws;
- 1.9.2 reviewing and approving as considered appropriate: (i) practices to identify related party transactions that could have a material effect on the stability or solvency of the Bank and; (ii) the measurement criteria and benchmarks for permitted related party transactions;
- 1.9.3 reviewing and, if advisable, approving the terms and conditions of related party loans that exceed established benchmarks; and
- 1.9.4 reviewing reports to the Committee on related and affected party transactions.

## **1.10 Conflicts of Interest and Confidential Information**

- 1.10.1 overseeing the Bank's procedures to identify, resolve and, where possible, reduce incidences of, conflicts of interest;
- 1.10.2 overseeing the Bank's procedures to restrict the use and disclosure of confidential information;
- 1.10.3 reviewing and approving the Bank's Disclosure Standard;
- 1.10.4 reviewing reports to the Committee relating to the use and disclosure of customer and employee information; and
- 1.10.5 overseeing the Bank's compliance with privacy legislation.

## **1.11 Consumer Protection Measures and Complaints**

- 1.11.1 overseeing and reviewing the Bank's consumer protection procedures to comply with the Consumer Provisions, as such term is defined in the *Financial Consumer Agency of Canada Act*;
- 1.11.2 reviewing an annual report on the implementation of the consumer protection procedures, and on any other activities that the Bank carries out in relation to the protection of its customers;
- 1.11.3 reviewing the annual report of the Customer Complaint Appeal Office on complaint resolution; and
- 1.11.4 overseeing the Bank's compliance with any orders or compliance agreements imposed by the FCAC.

## **1.12 Aircraft and Chief Executive Officer Expense Accounts**

- 1.12.1 reviewing and approving, on an annual basis, the report on Bank aircraft and Chief Executive Officer expense accounts; and
- 1.12.2 the chair of the Committee will review, on a quarterly basis, the report on Chief Executive Officer expense accounts.

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## **PART II COMPOSITION**

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## **2.1 Members**

- 2.1.1 The Committee will consist of three or more directors as determined by the Board. At least a majority of the members of the Committee will not be "affiliated" with the Bank for the purposes of the *Bank Act* (Canada). Each member of the Committee will be: (i) a director who is not an officer or employee of the Bank or an affiliate of the Bank; and (ii) "independent" for the purposes of applicable Canadian and United States securities laws and the New York Stock Exchange Rules.
- 2.1.2 Committee members will be Financially Literate or become so within a reasonable period after appointment to the Committee. At least one Committee member will qualify as an Audit Committee Financial Expert. Committee members will not serve on more than three public company audit committees without the approval of the Board.
- 2.1.3 The Board will, having considered the recommendation of the Governance and Nominating Committee, appoint the members of the Committee and the chair of the Committee annually following the meeting of the shareholders at which directors are elected each year. The Board may appoint a member to fill a vacancy which occurs in the Committee between annual elections of directors and increase the number of Committee members as it determines appropriate. If a member of the Committee becomes "affiliated" with the Bank for the purposes of the *Bank Act* (Canada), the member may continue as a member of the Committee with the approval of the Governance and Nominating Committee, in consultation with the Bank's General Counsel. Any member of the Committee may be removed or replaced at any time by the Board.
- 2.1.4 In addition to any orientation provided by the Governance and Nominating Committee, the chair of the Committee will provide orientation to new members of the Committee with respect to their duties and responsibilities as members of the Committee.
- 2.1.5 The Committee may invite other directors to attend Committee meetings or otherwise provide input as needed to acquire additional specific skills as required to carry out its mandate.

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## **PART III**

### **COMMITTEE PROCEDURE**

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## **3.1 Meetings**

- 3.1.1 The Committee will meet as frequently as it determines necessary but not less than once each quarter. Meetings may be called by the Chair of the Board, the chair of the Committee or any two members of the Committee. The chair of the Committee must call a meeting when requested to do so by any member of the Committee, the Shareholders' Auditors, the Chief Auditor, the Chair of the Board, the Chief Executive Officer, the Chief Financial Officer, the General Counsel or the Chief Risk Officer.
- 3.1.2 Notice of the time and place of each meeting of the Committee, other than *ad hoc* meetings, will be given to each member of the Committee and the Shareholders' Auditors, not less than 48 hours before the time when the meeting is to be held. A quorum of the Committee will be a majority of its members. The powers of the Committee may be exercised at a meeting at which a quorum of the Committee is

present in person or by telephone or other electronic means or by a resolution signed by all members entitled to vote on that resolution at a meeting of the Committee. Each member is entitled to one vote in Committee proceedings.

- 3.1.3 Notice of the time and place of *ad hoc* meetings will be given to each member not less than two hours before the time when the meeting is to be held.
- 3.1.4 The chair of the Committee will preside at all meetings of the Committee at which he or she is present and will, in consultation with the Chief Financial Officer, the Chief Auditor, the General Counsel and the Shareholders' Auditors, develop the agenda for each Committee meeting. The agenda for each meeting of the Committee, other than *ad hoc* meetings, will be delivered together with such other materials as the chair determines necessary, to each member of the Committee at least 48 hours prior to the meeting. The chair will designate from time to time a person who may be, but need not be, a member of the Committee, to be secretary of the Committee. Minutes will be kept of all meetings of the Committee and will be maintained by the Bank's Corporate Secretary.
- 3.1.5 The procedure at meetings is to be determined by the Committee unless otherwise determined by the By-Laws of the Bank, by a resolution of the Board or by this Charter.
- 3.1.6 The Committee will meet at least quarterly in separate private sessions with each of the Shareholders' Auditors and the Chief Auditor, and as appropriate with management including the Chief Financial Officer, the General Counsel, the Chief Compliance Officer and the Chief Anti-Money Laundering Officer.
- 3.1.7 The Committee will meet at the end of each meeting with only members of the Committee present.
- 3.1.8 The Committee may invite any director, officer or employee of the Bank or the Bank's counsel or the Shareholders' Auditors or any other person, as appropriate, to attend meetings of the Committee to assist in the discussion and examination of the matters under consideration by the Committee. The Shareholders' Auditors will, at the expense of the Bank, be entitled to attend and be heard at any meeting of the Committee.

### **3.2 Reports**

- 3.2.1 The Committee will report the proceedings of each meeting and all recommendations made by the Committee at such meeting to the Board at the Board's next meeting. The Committee will make such recommendations to the Board as it may deem appropriate and will have such decision-making authority as the Board may determine from time to time. The Committee will approve the report of the Committee to be included in the Bank's Management Proxy Circular and such other reports relating to the activities of the Committee as may be required by the Bank or the Board from time to time. In addition, the Committee will prepare and submit to the Board for its review and approval the reports required to be submitted by the Board within 90 days after the financial year-end of the Bank concerning the activities of the Committee during the year to (i) OSFI in carrying out its conduct review responsibilities and (ii) the FCAC in carrying out its consumer protection review responsibilities. Finally, the Committee may report to the Risk Review Committee on any issues of relevance to it.

### **3.3 Access to Management and Outside Advisors and Continuing Education**

- 3.3.1 The Committee will have full, free and unrestricted access to management and employees, the Chief Auditor and the Shareholders' Auditors. The Committee has the authority to engage independent legal counsel, consultants or other advisors, with respect to any issue or to assist it in fulfilling its responsibilities without consulting or obtaining the approval of any officer of the Bank and the Bank will provide appropriate funding, as determined by the Committee, for the payment of: compensation



to the Shareholders' Auditors engaged for the purpose of preparing or issuing an auditor's reports or performing the audit, review or attest services for the Bank; compensation to any advisors employed by the Committee; and ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

- 3.3.2 The Committee will have access to continuing education programs to assist the Committee in fulfilling its responsibilities and the Bank will provide appropriate funding for such programs.

### **3.4 Annual Review and Assessment**

- 3.4.1 The Committee will ensure that an annual review and assessment of the Committee's performance and effectiveness, including a review of its compliance with this Charter, will be conducted in accordance with the process developed by the Board's Governance and Nominating Committee and approved by the Board. The results thereof will be reported in accordance with the process established by the Board's Governance and Nominating Committee and approved by the Board.
- 3.4.2 The Committee will review and assess the adequacy of this Charter on an annual basis taking into account all legislative and regulatory requirements applicable to the Committee as well as any best practice guidelines recommended by regulators or stock exchanges with whom the Bank has a reporting relationship and, if appropriate, will recommend changes to the Board's Governance and Nominating Committee.

### **3.5 Definitions**

"**Audit Committee Financial Expert**" means a person who has the following attributes:

- (i) an understanding of generally accepted accounting principles and financial statements;
- (ii) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
- (iii) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Bank's financial statements, or experience actively supervising one or more persons engaged in such activities;
- (iv) an understanding of internal control over financial reporting; and
- (v) an understanding of audit committee functions,

acquired through any one or more of the following:

- a) education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions;
- b) experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions;
- c) experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or
- d) other relevant experience.

**“Auditor Independence Standard”** means the Bank’s Auditor Independence Standard that provides guidance for engaging the Shareholders’ Auditors to perform audit and permitted non-audit services for the Bank, its subsidiaries and material entities over which the Bank has significant influence.

**“Bank”** means Bank of Montreal and as the context requires, subsidiaries of the Bank.

**“Board”** means the Board of Directors of Bank of Montreal.

**“Committee”** means the Audit and Conduct Review Committee of the Board of Directors of Bank of Montreal.

**“Designated Subsidiary”** means as requested by the Board, those subsidiaries of the Bank for which the Committee will act as audit and conduct review committee.

**“Financially Literate”** means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Bank's financial statements.

**“FCAC”** means the Financial Consumer Agency of Canada.

**“OSFI”** means the Office of the Superintendent of Financial Institutions.

**“Shareholders’ Auditors”** mean the independent financial statement auditors of the Bank.